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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73487; File No. SR-CBOE-2014-067)

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to the Automatic Order Handling Process in No-Bid Series

October 31, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 22, 2014, Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Exchange rules regarding the automatic order handling process in no-bid series. The text of the proposed rule change is available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend its rules regarding its automatic order handling process. The proposed rule change seeks to modify subparagraph (vi) to Rule 6.13(b), which sets forth how the CBOE Hybrid System³ handles market orders to sell in option series for which the national best bid in the series is zero ("no-bid series").⁴ Currently, if the CBOE Hybrid System receives during the trading day or has resting in the electronic book⁵ after the opening of trading a market order to sell in a no-bid series, it handles the order as follows:

- if the Exchange best offer in that series is less than or equal to \$0.30, then the CBOE Hybrid System will consider, for the remainder of the trading day, the market order as a limit order to sell with a limit price equal to the minimum trading increment applicable to the series and enter the order into the electronic book behind limit orders to sell at the minimum increment that are already resting in the book.

³ The CBOE Hybrid System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange. To operate in this "hybrid" environment, the Exchange has a dynamic order handling system that has the capability to route orders to the trade engine for automatic execution and book entry, to Trading Permit Holder and PAR workstations located in the trading crowds for manual handling, and/or to other order management terminals generally located in booths on the trading floor for manual handling.

⁴ The Exchange notes that, for singly listed series, the national best bid is equivalent to the Exchange's best bid and the national best offer is equivalent to the Exchange's best offer.

⁵ For example, the Exchange receives a market order to sell prior to the opening of a series and the series opens with a sell market order imbalance pursuant to Rule 6.2B(e)(iii). When the series opens the market order to sell, which was resting in the book prior to the opening of the series, will be routed according to the no-bid procedures in Rule 6.13.

- if the Exchange best offer in that series is greater than \$0.30, then the CBOE Hybrid System will route the market order to sell to PAR or, at the order entry firm's discretion, to the order entry firm's booth. If the market order is not eligible to route to PAR, then it will be cancelled.

Based on experience since the implementation of this parameter, the Exchange now proposes to change the parameter from \$0.30 to \$0.50. The Exchange believes that the automatic handling of market orders to sell in no-bid series if the Exchange best offer is less than or equal to \$0.50 would reduce the manual handling of orders and facilitate the CBOE Hybrid System's automatic handling process. Additionally, the \$0.50 threshold serves as a protection feature for investors in certain situations, such as when a series is no-bid because the last bid traded just prior to the entry of the market order to sell. The purpose of this threshold is to limit the manual handling of market orders to sell in no-bid series to only those for true zero-bid options, as options in no-bid series with an offer of more than \$0.50 are less likely to be worthless.

For example, if the CBOE Hybrid System receives a market order to sell in a no-bid series with a minimum increment of \$0.01 and the Exchange best offer is \$0.01, the CBOE Hybrid System will consider, for the remainder of the trading day, the order as a limit order with a price of \$0.01 and submit it to the electronic book behind other limit orders to sell at the minimum increment that are already resting in the book. At that point, even if the series is no-bid because, for example, the last bid just traded and the limit order trades at \$0.01, the next bid entered after the trade would not be higher than \$0.01.⁶

⁶ If the order does not execute during the trading day as a limit order and remains outstanding after the close of trading (i.e., a good-til-cancelled order), the CBOE Hybrid System at that time will no longer consider the order as a limit order and will again handle the order as a market order to sell after the close of trading. The market order will stay on the electronic book until the opening of the next trading day (or until cancelled),

However, if the CBOE Hybrid System receives a market order to sell in a no-bid series with a minimum increment of \$0.01 and the Exchange best offer is \$1.20 (because, for example, the last bid of \$1.00 just traded and a new bid has not yet populated the Exchange's quote), the CBOE Hybrid System will instead route the order to PAR (or, at the order entry firm's discretion, to the order entry firm's booth). Manual handling of the order prevents an anomalous execution price, since the next bid entered in that series is likely to be much higher than \$0.01.⁷ It would be unfair to the entering firm to let its market order trade as a limit order for \$0.01 because, for example, the firm submitted the order during the brief time when there were no disseminated bids in a series trading significantly higher than the minimum increment. To combat the potential unfairness outlined above, the order entry firm has the discretion to have the market order to sell routed to a PAR Official,⁸ the PAR workstation of a Trading Permit Holder ("TPH User"), or to the order entry firm's booth. A PAR Official that receives such an order will review the terms of the order and handle the order as set forth in Rule 7.12 (e.g., the PAR Official may bring the order to the trading crowd or enter the order into the electronic book at the minimum increment). Currently, TPH Users that receive orders pursuant to the no-bid scenario are systematically blocked from booking the order into the electronic book. The Exchange

at which point it may execute during the open or, if it remains unexecuted after the opening of trading, it will either execute with the best bid at the time or, if the series is still no-bid, again be handled pursuant to proposed Rule 6.13(b)(vi).

⁷ Routing the market order to PAR or the order entry firm's booth provides for an alternative means through which the order may be executed before it is simply cancelled.

⁸ A "PAR Official" is an Exchange employee or independent contractor whom the Exchange may designate as being responsible for (a) operating the PAR workstation in a DPM trading crowd with respect to the classes of options assigned to him/her; (b) when applicable, maintaining the book with respect to the classes of options assigned to him/her; and (c) effecting proper executions of orders placed with him/her. The PAR Official may not be affiliated with any Trading Permit Holder that is approved to act as a Market-Maker. See Rule 7.12(a).

proposes to allow TPH Users to review the order and handle the order in a similar manner to PAR Officials (e.g., bring the order to the trading crowd or enter the order into the electronic book at the minimum increment). The Exchange notes that PAR Officials and TPH Users must use due diligence to execute orders that they receive at their PAR workstations at the best prices available to them under the Exchange Rules.⁹

The Exchange believes the threshold of \$0.50 is reasonable. The Exchange notes that this threshold is equal to or less than the bid-ask differential applicable to all options classes.¹⁰ The Exchange also notes that this threshold is less than the current acceptable price range (“APR”) parameter for series with a bid price of less than \$100.00.¹¹ Pursuant to the price check provision in Rule 6.13(b)(v)¹² the CBOE Hybrid System will not automatically execute a marketable order if the width between the national best bid and national best offer is not within

⁹ See, e.g., Rule 7.12(b)(ii) (governing PAR Officials) and Rule 6.73(a). PAR workstations are only available on the trading floor; therefore, the use of a PAR workstation by a TPH User requires the TPH User to comply with Rule 6.73(a).

¹⁰ Bid-Ask differentials are determined by the Exchange on a class-by-class basis. See CBOE Rule 8.7(b)(iv) and Regulatory Circular RG-14-117 (Bid-Ask Differentials). Currently, the opening rotation and open outcry quote widths for a series with a bid of less than \$2.00 is \$0.50 for all options classes, excluding LEAPS; EEM; NDX; PCLN; RUT; SPX; SPXPM; UltraShorts; UltraLongs; Direxion 3X; and DirexionShares 3X, which all have higher bid-ask differentials. Intraday Electronic Quoting Widths are also higher than \$0.50.

¹¹ The acceptable APR parameter is determined by the Exchange on a class-by-class basis. See CBOE Rule 6.13(b)(v) and CBOE Regulatory Circular RG14-061 (Operational Systems Settings – APR and OEPW).

¹² Rule 6.13(b)(v) also provides that the CBOE Hybrid System will not automatically execute eligible orders that are marketable if the execution would follow an initial partial execution on the Exchange and would be at a subsequent price that is not within an acceptable tick distance from the initial execution. The APR for purposes of Rule 6.13(b)(v) is determined by the Exchange on a class-by-class basis and may not be less than \$0.375 between the bid and offer for each option contract for which the bid is less than \$2, \$0.60 where the bid is at least \$2 but does not exceed \$5, \$0.75 where the bid is more than \$5 but does not exceed \$10, \$1.20 where the bid is more than \$10 but does not exceed \$20, and \$1.50 where the bid is more than \$20. An “acceptable tick distance” shall be no less than two minimum increments.

the APR, which the Exchange has currently set at \$10.00 for any bid price between \$0.00 and \$100.00. Instead, the CBOE Hybrid System will route the order to a PAR workstation or the order entry firm's booth, or if the order is not eligible to route to PAR, it will be cancelled.¹³ Notwithstanding this provision, proposed Rule 6.13(b)(vi) allows for the potential execution of market orders to sell in no-bid series with offers less than \$0.50 as limit orders at the price of a minimum increment. If the threshold in proposed Rule 6.13(b)(vi) were higher, the risk of having a market order trade at a minimum increment in a series that is not truly no-bid would increase.

The proposed rule change will require the Exchange to modify the System in two installments. The first installment will change the \$0.30 parameter to \$0.50. The second installment will allow market orders to sell in no-bid series that were routed to a PAR workstation of a TPH User to be entered into the electronic book. After the rule change is effective, the Exchange will announce the implementation dates for the two installments in a Regulatory Circular to be published no later than 90 days following the effective date. The implementation date for each installment will be no later than 180 days following the effective date and at least two weeks after the publication of the above Regulatory Circular.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act") and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁴ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁵ requirements

¹³ See CBOE Rule 6.13(b)(v)(B).

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that the automated handling of market orders to sell in no-bid series if the Exchange best offer is \$0.50 or less assists with the maintenance of fair and orderly markets and protects investors and the public interest because it provides for automated handling of these orders, ultimately resulting in more efficient executions of these orders. The Exchange believes that the \$0.50 threshold also protects investors and assists with the maintenance of fair and orderly markets by preventing executions of market orders to sell in no-bid series with higher offers at potentially extreme prices in series that are not truly no-bid. The Exchange believes this threshold appropriately reflects the interests of investors, as options in no-bid series with offers higher than \$0.50 are less likely to be worthless, and manual handling of these orders will lead to better executions for investors than would occur through automatic handling. The Exchange also believes that the \$0.50 threshold promotes fair and orderly markets because market orders to sell in no-bid series with offers of \$0.50 or less are likely to be individuals seeking to close out a worthless position for which automatic handling is appropriate.

¹⁶

Id.

B. Self-Regulatory Organization's Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. More specifically, the Exchange does not believe that the proposed rule changes will impose any burden on intramarket competition because it will be applicable to all TPHs trading on the Exchange trading floor. In addition, the Exchange does not believe the proposed changes will impose any intermarket burden because the Exchange will operate in a similar manner only with a more applicable no-bid series threshold.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and
- (iii) become operative for 30 days from the date on which it was filed, or such shorter

time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁷ and Rule 19b-4(f)(6)¹⁸ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f)(6).

Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2014-067 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CBOE-2014-067. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

Street, NE, Washington, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CBOE-2014-067 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Kevin M. O'Neill,
Deputy Secretary.

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8:45 am; Publication Date: 11/06/2014]

¹⁹ 17 CFR 200.30-3(a)(12).